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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Amendment of the Part 69 Allocation
of General Support Facility Costs

CC Docket No. 92-222

COMMENTS OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

Pursuant to Section 1.415 of the Commission's Rules, American Telephone and Telegraph Company ("AT&T") submits these comments on the Commission's Notice of Proposed Rulemaking ("GSF Notice") in the above-captioned proceeding.¹

In its Interconnection Order the Commission required Tier 1 Local Exchange Carriers ("LECs") to offer expanded interconnection to all interested parties by permitting competitive access providers ("CAPs") and other users to terminate their own special access transmission facilities at LEC central offices. The LECs are required to file expanded interconnection tariffs with connection

¹ Expanded Interconnection with Local Telephone Company Facilities, Report and Order and Notice of Proposed Rulemaking, CC Docket Nos. 91-141 and 92-222, FCC 92-440, released October 19, 1992 ("Interconnection Order" and "GSF Notice," respectively).

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charges designed to compensate them for services offered to interconnectors, but the LECs will not be permitted to impose a contribution charge. Rather, in the GSF Notice, the Commission proposes to eliminate the over-allocation of general support facilities ("GSF") costs to Special Access, which is the only support flow identified in the Interconnection Order proceeding as potentially justifying a special access contribution charge.² The Commission requests comments on this proposal.

Under current Section 69.307 of the Commission's Rules, GSF costs are under-allocated to the Common Line Category and over-allocated to all other access categories, including Special Access and Transport.³ This skewed allocation was designed to ensure "revenue-neutral" impacts with respect to the interstate Common Line Category.⁴ The Commission tentatively concludes that "the

² GSF Notice, ¶¶ 267-269.

³ As the GSF Notice (¶ 267) explains, Section 69.307 of the Commission's Access Charge Rules, 47 C.F.R. § 69.307, requires the LECs to apportion GSF investment among the access categories based on investment in the following categories of plant: central office equipment, information origination/termination equipment, and cable and wire facilities excluding Category 1.3 (the investment in subscriber lines). See 47 C.F.R. § 36.154(a) for a definition of "Category 1.3." Because Category 1.3 investment is excluded from the allocator, GSF costs are under-allocated to the Common Line Category, and over-allocated to the other access categories. GSF Notice, ¶ 268.

⁴ See GSF Notice, ¶ 268; see also Amendment To Part 69 Of The Commission's Rules And Regulations, Access Charges, To Conform It With Part 36, Jurisdictional Separations

benefits of this [approach] are outweighed by the potential adverse effects on the development of competition in interstate access markets" if the current over-allocation of GSF costs to Special Access and Transport were permitted to continue.⁵ Accordingly, the Commission proposes to revise Section 69.307 by deleting the words "excluding Category 1.3" and thereby eliminate the only regulatory mechanism identified in its Interconnection Order proceeding as potentially warranting a special access "contribution" charge.⁶

The Commission should adopt this approach. According to AT&T's calculation, based on 1991 data, the proposed revision of Section 69.307 to correct the misallocation of GSF would reduce annual costs assigned to

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Procedures, 2 FCC Rcd. 6447, 6452 (1987). The Commission's concern was that adding additional costs to the interstate Common Line Category could result in increases to the Subscriber Line Charge ("SLC"). At that time, the impact of SLC increases on telephone subscribership was not yet well tested.

⁵ GSF Notice, ¶ 268. Moreover, GSF includes the investment in buildings, land, vehicles, aircraft, work equipment, furniture, office equipment and general purpose computers (see Section 69.2(q)) that supports a wide variety of access functions. Consequently, it would be appropriate, for this reason as well, to apportion such costs among all access elements, consistent with the treatment, for example, of Corporate Operations Expense under Section 69.409.

⁶ See Docket 91-141 Comments, filed August 6, 1991, of the following parties: Bell Atlantic, p. 10, n.21; Ameritech, pp. 41-42; Pacific Bell, p. 27, n.32 and Exhibit B.

the Special Access, Traffic-Sensitive,⁷ and Interexchange Categories, by approximately \$223 million, \$763 million, and \$4 million, respectively, with a corresponding increase in Common Line Category costs of roughly \$990 million.⁸

Such a dollar-for-dollar cost realignment would further important public policy objectives, because it would permit more cost-based pricing of the LECs' Special Access and Traffic-Sensitive services (including Local Transport).⁹ The Commission's goal in the Interconnection

⁷ The Traffic-Sensitive Category includes Transport, Local Switching, and Information. See Section 69.118 of the Access Charge Rules, 47 C.F.R. § 69.118; see also Section 61.42(e)(1) of the Price Cap Rules, 47 C.F.R. § 61.42(e)(1).

⁸ See Appendix A. These data reflect the costs of Tier 1 LECs that report cost information through ARMIS. These carriers represent approximately 93.4% of 1991 interstate carrier common line minutes of use. See Summary of NECA Total Pool Results and MOU Data, Supplemental Report of Common Line Pool Results Reported as of October 1992, CC Docket No. 87-339, filed November 16, 1992.

⁹ Other parties have confirmed that implementing a contribution rate element would be inconsistent with the Commission's regulatory objectives. For example, MCI pointed out that a contribution element "will undermine the . . . incentive of the LECs to control costs, and will prevent competition from providing its most important benefit -- the imposition of pressure on the incumbent monopolist to reduce costs." MCI Docket 91-141 Comments, filed August 6, 1991, p. 27. GSA also correctly observed that a non-cost-based contribution element will create incentives for uneconomic bypass of LEC facilities, a result which would "ultimately weaken the nation's overall telecommunications infrastructure." GSA Docket 91-141 Comments, filed August 6, 1991, p. 16; see also the Docket 91-141 Comments, filed August 6, 1991, of the following parties: ALTS, p. 29; Ad Hoc, pp. 30-31;

Order proceeding, as in the LEC price cap plan,¹⁰ is to encourage LECs to price their services more efficiently by implementing cost-based access charges.¹¹ The existing over-allocation of GSF costs to the Special Access and Traffic-Sensitive Categories frustrates that goal because it requires those categories to bear a disproportionate amount of GSF costs. The Commission's objective of fostering cost-based prices would be undermined if the LECs implemented more cost-based access prices but at the same time required customers to pay an additional, non-cost-based "contribution" charge to compensate the LECs for a continuing misallocation of costs under the Commission's Part 69 Rules. The appropriate way to address this problem is, as the Commission proposes, to

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CompuServe, p. 9; EDS, p. 5; MetroComm, p. 2; MFS, pp. 82-84; WilTel, p. 25.

¹⁰ See Policy and Rules Concerning Rates for Dominant Carriers, 5 FCC Rcd. 6786 (1990), recon. denied, 6 FCC Rcd. 2637 (1991), petition for review pending sub nom., D.C. Pub. Serv. Comm'n v. FCC, No. 91-1279 (D.C. Cir. filed June 14, 1991).

¹¹ Similarly, encouraging efficient use of access services through cost-based pricing is one of the Commission's overriding goals in its switched access interconnection proceedings, as well as in its Transport Rate Structure and Pricing proceeding, Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 91-213, FCC 92-442, released October 16, 1992. Eliminating the over-allocation of GSF costs to Transport (by revising Section 69.307 as proposed in the GSF Notice) is one of the steps that should be taken to reduce the switched Interconnection Charge, so as to achieve more cost-based local transport rates. See id., ¶¶ 133-140.

correct the skewed Part 69 assignment of GSF costs by revising Section 69.307, and not to impose a non-cost-based "contribution" additive to interconnection charges.¹²

Revision of Section 69.307 will not only permit more cost-based pricing of the LECs' Special Access and Transport services, but the increase in Common Line costs should not have significant adverse impacts. The proposed change would result in a small increase (approximately 3.6% according to AT&T's calculation)¹³ in total industry SLC revenue requirements. This would result in minor increases both in multiline business SLCs that are below the \$6.00 cap, and in residence and single line business SLCs in the few jurisdictions where they are below the \$3.50 cap.¹⁴ These SLC increases should not be problematic because it is now well established, according to data released by the Commission, that telephone

¹² See AT&T Docket 91-141 Reply Comments, filed September 20, 1991, pp. 10-12.

¹³ Appendix B shows that Tier 1 SLC revenue requirements will increase approximately \$206 million which, when divided by Tier 1 LEC SLC revenues of \$5.7 billion, yields an increase of 3.6%.

¹⁴ GSF Notice, n.627. Consistent with cost-causation principles, any increased Common Line costs resulting from the rule change should be recovered to the maximum extent feasible through the SLC rather than through increased Carrier Common Line Charges ("CCLCs"). This is because the flat-rated SLC reflects the non-usage sensitive dedicated nature of subscriber lines, whereas the usage-based CCLC does not.

subscribership in the United States has not been adversely affected due to the introduction of, or increases in, the SLC. To the contrary, telephone subscribership has increased from 91.8% of households in mid-1985 (when the residential SLC was first introduced) to 93.9% in March 1992.¹⁵ Thus, the relatively minor increases in SLC that will result from the implementation of the rule change should not adversely affect telephone subscribership levels.¹⁶

In these circumstances, the Commission should adhere to its policy of cost-based access charges and revise Section 69.307 rather than establish a non-cost-based "contribution" element. The

¹⁵ See "Telephone Subscribership in the U.S.," Table 1.1, Monitoring Report, CC Docket No. 87-339, released July 1992. Of the approximately \$206 million increase in SLC revenue requirements, approximately \$189 million will be recovered from multiline business customers and only \$17 million from residence and single line business customers.

¹⁶ Although CCLCs will also rise, uneconomic bypass is unlikely because there will be only a minimal overall increase in per-minute switched access rates, given that the increase in CCLCs will be almost entirely offset by decreases in Traffic-Sensitive charges. Of the estimated \$990 million increase in Common Line costs, approximately \$206 million will be recovered via the SLC. The remaining \$784 million (\$990-\$206 million) of increased Common Line costs will be offset almost completely by the \$763 million decrease in Traffic-Sensitive ("TS") costs. Because the prices paid by end users for services employing switched access include both the TS and CCLC access charges paid by IXC's, the bulk of the cost shift between TS and CCL should be transparent to the end user.

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Interconnection Order (n.4), however, left open the possibility that in the future a LEC could seek Commission approval of a contribution charge to recover "specifically identified regulatory support flows or non-cost-based allocations." For all of the reasons shown herein, if any non-cost-based allocations are detected in the future, the Commission should eliminate them, as it proposes doing for GSF.

In sum, the Commission's proposal to modify Section 69.307 of its Rules to properly align GSF costs with the access elements, rather than create a non-cost-based contribution charge for special access interconnectors, will further the Commission's policy objectives and should be adopted.

Respectfully Submitted,

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ESTIMATED REVENUE REQUIREMENT SHIFT RESULTING FROM THE PROPOSED MODIFICATION
OF PART 69.307

DOLLARS IN (000s)

TIER 1 LECs	CHANGE IN CL	CHANGE IN TS	CHANGE IN SPECIAL	CHANGE IN INTEREXCHANGE
AMERITECH	116,549	(88,728)	(27,735)	(87)
BELL ATLANTIC	94,541	(70,091)	(23,983)	(474)
BELLSOUTH	126,247	(96,957)	(29,279)	(11)
NYNEX	133,045	(103,506)	(29,283)	(255)
PACIFIC BELL	103,330	(70,888)	(32,441)	(3)
NEVADA BELL	2,381	(1,977)	(404)	0
SOUTHWESTERN BELL	86,601	(59,293)	(26,899)	(408)
U S WEST	115,519	(95,864)	(19,649)	(5)
SNET	17,719	(14,034)	(3,685)	0
ROCHESTER	2,144	(1,359)	(661)	(125)
CINCINNATI BELL	7,200	(4,300)	(2,225)	(675)
GTE	142,083	(120,668)	(21,132)	(286)
CONTEL	12,335	(10,473)	(1,349)	(513)
CENTEL	7,261	(6,082)	(1,167)	(11)
UNITED	22,129	(17,984)	(3,370)	(775)
LINCOLN	1,349	(1,120)	(208)	(21)
TOTAL	990,432	(763,323)*	(223,469)	(3,651)

CL: COMMON LINE CATEGORY

TS: TRAFFIC SENSITIVE CATEGORY

SPECIAL: SPECIAL ACCESS CATEGORY

INTEREXCHANGE: INTEREXCHANGE CATEGORY

* TRAFFIC SENSITIVE CATEGORY BREAKDOWN:

LOCAL SWITCHING = (261,184)

LOCAL TRANSPORT = (498,856)

INFORMATION = (3,283)

NOTES: TOTALS MAY VARY SLIGHTLY DUE TO ROUNDING.

ANALYSIS INCLUDES ALL TIER 1 COMPANIES EXCEPT PUERTO RICO.

THE RESULTS SHOWN ABOVE WERE DERIVED BY INPUTTING 1991 TIER 1 LEC
ARMIS DATA (43-03 AND 43-04) INTO A MODEL WHICH REPLICATES THE
ALLOCATION PROCESSES OF PARTS 64, 36, AND 69 OF THE COMMISSION'S
RULES.

APPENDIX B

ESTIMATED EFFECT ON THE COMMON LINE CATEGORY OF THE PROPOSED MODIFICATION OF
PART 69.307

DOLLARS IN (000s)

TIER 1 LECs	CHANGE IN CL	CHANGE IN SLC	CHANGE IN CCLC
AMERITECH	116,549	39,701	76,848
BELL ATLANTIC	94,541	31,139	63,402
BELLSOUTH	126,247	3,885	122,361
NYNEX	133,045	21,937	111,108
PACIFIC BELL	103,330	32,985	70,345
NEVADA BELL	2,381	662	1,719
SOUTHWESTERN BELL	86,601	21,469	65,132
U S WEST	115,519	30,296	85,223
SNET	17,719	3,848	13,870
ROCHESTER	2,144	515	1,629
CINCINNATI BELL	7,200	1,615	5,585
GTE	142,083	12,056	130,027
CONTEL	12,335	55	12,280
CENTEL	7,261	3,432	3,829
UNITED	22,129	2,341	19,788
LINCOLN	1,349	288	1,061
TOTAL	990,432	206,224	784,208

CL: COMMON LINE CATEGORY (INCLUDES BOTH CHANGES IN SLC AND CCLC)

SLC: SUBSCRIBER LINE CHARGE

CCLC: CARRIER COMMON LINE CHARGE

NOTES: TOTALS MAY VARY SLIGHTLY DUE TO ROUNDING.

ANALYSIS INCLUDES ALL TIER 1 COMPANIES EXCEPT PUERTO RICO.

THE CHANGE IN COMMON LINE CATEGORY COSTS SHOWN ABOVE WAS DERIVED BY INPUTTING 1991 TIER 1 LEC ARMS DATA (43-03 AND 43-04) INTO A MODEL WHICH REPLICATES THE ALLOCATION PROCESSES OF PARTS 64, 36, AND 69 OF THE COMMISSION'S RULES. A LOTUS SPREADSHEET WAS USED TO DEVELOP THE SLC AND CCLC CHANGES.